**Congresswoman Anna G. Eshoo**

# The Future of Social Security

The on-going debate about Social Security's long-term future has generated a great deal of information – some accurate, some misleading. Because I think it's essential to have the facts, I'm enclosing two instructive reports which I hope you'll to be find as helpful as I have.

The first report, prepared at my request by the House Government Reform Committee, summarizes the impact that the President's reform will have on the people of my Congressional District.

The second report provides an overview of the budgetary and benefit implications of the President's plan. Most significantly, these reports reveal that today's youngest workers will face the deepest cuts in benefits under the plan the President favors. Workers who are under the age of 35 today will face benefit cuts of nearly $8,500 per year. Overall, more than 230,000 people in the District will together forfeit more than $24 billion in benefits over their lifetimes. For all this expense, little will be done to shore up the program's long-term financing.

As you follow the debate, here are some important facts to keep in mind:

**What is Social Security?**

Social Security is an insurance plan coupled with a retirement benefit. Its purpose is not to make its recipients wealthy but to serve as a safety net at times when we're financially vulnerable due to the loss of income from disability, retirement, or the death of a spouse. Most Americans, including federal employees and all Members of Congress, participate in it. Social Security provides retirement benefits to more than 30 million Americans, as well as the following:

- Benefits for 6.2 million disabled workers;
- Survivor benefits for 6.7 million children in families in which a worker dies before reaching retirement;
- A progressive formula to ensure the poorest beneficiaries have an adequate benefit, helping lift more than 13 million Americans out of poverty; and
- An annual cost of living adjustment to guarantee that benefits keep pace with inflation.

These benefits are unmatched in the private sector and they represent an insurance policy that is essential to retain.

**What are the challenges facing the system?**

In 70 years, Social Security has never defaulted on its obligations, but according to the nonpartisan Congressional Budget Office (CBO), Social Security will face a financial shortfall beginning in 2052. At that time the CBO estimates the Social Security Trust Fund will be able to pay out about 70% to 80% of promised benefits. (According to the Social Security Administration, this shortfall will occur even sooner, in 2041.) <u>We have to take steps to lengthen and strengthen the current system so it will be there for future generations, but we shouldn't dismantle it by privatizing it.</u> Congress has done this before for a previous generation, and we should do so for a future generation.

**What is the Administration proposing?**

The President has suggested dramatic changes in Social Security for everyone under the age of 55. He has called for establishing private accounts and reducing benefits for everyone who earns an average of more than $20,000 per year. Here are some of the consequences of his plan:

- It doesn't help Social Security meet its obligation to pay benefits to future retirees; it makes the situation worse by forcing us to borrow approximately $5 trillion to finance private accounts. This means that in 2030 Social Security won't be able to pay full benefits. That is eleven to 22 years sooner than what the independent experts project if nothing was done.
- With or without private accounts, benefits for most middle income beneficiaries will be cut by 20% to over 50%.
- With private accounts, beneficiaries will absorb the risks of fluctuations in the stock market.
- On average, for every dollar a beneficiary has in a private account, approximately 70 cents will be deducted from his or her Social Security check.
- Beneficiaries won't be able to control their accounts; they will have to invest in a handful of stock and bond funds that the government chooses.
- Beneficiaries won't be able to withdraw your money for an emergency, such as an unexpected illness.

**What can we do to fix the problem?**

More than 20 years ago, Social Security faced a funding crisis that left it months away from not being able to pay benefits. A bipartisan commission, which was appointed by President Reagan, crafted solutions to keep the program fully funded for more than 60 years. Under the leadership of Senators Robert Dole and Daniel Patrick Moynihan, the Congress was able to compromise on a host of issues while retaining the fundamental structure of the program. I think we should follow that model again so we can sustain today's program for future generations.

There are many ideas that should be considered which will help make the program solvent and extend the life of the Trust Fund. Everything should be on the table including raising the cap on wages currently subject to the payroll tax, investing a portion of the Social Security Trust Fund in equities, and finding a new source of revenue, such as a consumption tax, to replace the current payroll tax. The one thing that we should not consider is diverting the Social Security Trust Fund revenue into individual private accounts. This only makes the solvency problems facing the program worse.